

Risk Management and Tort Defense Division

Title: Course of Construction Insurance Procedure #: 4.08

Approved: Brett E. Dahl Effective Date: Final

I. Purpose

The purpose of this procedure is to establish a process by which Course of Construction Insurance (also known as Builder's Risk) may be obtained for state building projects and renovations.

II. Definitions

Course of Construction Insurance is insurance provided by either the state, a contractor, or both, to cover a state building under construction or renovation. Course of construction insurance typically covers fire, theft, vandalism, malicious mischief, collapse, temporary buildings, property stored off-site, property in-transit, partial occupancy, architect's fees, and a variety of other perils.

Course of construction insurance does not cover the cost of faulty or defective workmanship, the cost of non-compliance or delay in completion of a contract, the cost of non-compliance with contract conditions, contractors' equipment or tools that are not a part of or destined to become a part of the installation, testing for new turbine generators, hydrostatic/pneumatic/gas pressure tests that exceed the manufacturer's recommended limits, or other risks excluded under the state's property insurance program.

Course of construction insurance, when structured as an "owner-controlled wrap up", often includes the interests of the contractor and subcontractors as "additional insureds".

III. Obtaining Course of Construction Risk Insurance

- A. Construction projects are managed by the Department of Administration, Architecture and Engineering Division (A&E), through the state Long Range Building Program approved by the legislature.
- B. Course of construction insurance provided by a project owner, such as the State of Montana, often provides significant cost savings and broader coverage than insurance provided by contractors on a "project by project" basis. The decision to add new building projects or renovations to the state's master property insurance program ultimately depends on the size of the project and the potential cost savings. Projects above \$5,000,000 in value are usually the best candidates for state sponsored insurance.

- C. By May 1st of each year, the Architecture & Engineering Division (A & E) will provide to the Risk Management & Tort Defense Division (RMTD) an updated list of potential projects that could be insured through the state's insurance program for the coming fiscal year.
- D. By June 1st of each year, A & E will consult with the State Risk Manager, RMTD, to determine which projects to insure. Thereafter, A & E will provide at least 30 days written notice before project inception to allow enough time for RMTD to secure coverage.
- E. Building projects whose replacement cost value is less than \$25 million are automatically covered by the state's insurance program until July 1st of the next fiscal year. However, a new replacement cost value must be established by A & E (for each project under construction or completed) and reported to the Risk Finance Specialist, Risk Management & Tort Defense Division, by March 15th of each fiscal year.
- F. Building projects whose replacement cost value exceeds \$25 million must be reported to RMTD immediately so that it can be scheduled on the state's master property schedule. Buildings that are not reported will not be covered. The state's course of construction insurance limit is currently \$50 million per occurrence.
- G. Agency requests for certificates of insurance shall be referred to the Risk Finance Specialist, Risk Management & Tort Defense Division at (406)444-4509. Please provide the name of the certificate holder, the address of the certificate holder, effective dates of insurance coverage, name of building project, and indicate where the certificates should be sent.

IV. Claims

- A. Course of construction property claims shall be filed with RMTD by contractors or A & E. Auto, general liability, workers' compensation, and all other claims shall be filed with appropriate contractor insurance carriers and shall not be sent to the state.
- B. Course of construction property claims shall be filed on the state "Report of Incident Form" which may be obtained from the Risk Management & Tort Defense Division's website at <http://rmt.d.mt.gov/claims/reportincidentform.asp>. The completed form shall be sent to Deb Lopuch, Risk Management & Tort Defense Division, P.O. Box 200124, Helena, Montana 59620-0124.
- C. A & E shall pay the first \$1,000 of each course of construction claim. For claims involving contractor negligence, contractors are responsible for the first \$25,000 of the state's deductible of \$250,000. RMTD will pay all other claims up to the state's

commercial insurance deductible of \$250,000.

- D. For claims involving contractor negligence, contractors must send payment via check to the Architecture and Engineering Division, P.O. Box 200103, Helena, Montana 59620-0103. The check or attached invoice must reference the claim number assigned by RMTD. Contractors who fail to pay claims for their negligence may have that amount deducted from their final reimbursement by A & E. A & E will forward the entire amount of the contractor's claim payment to RMTD electronically through SABHRS (State Accounting Budgeting and Human Resource System).

V. Rules Governing

None.

VI. Statutes Governing

2-9-303, MCA

VII. Forms

Report of Incident

VIII. Administrative Use

History Log	
Approved Date:	August 22, 2008
Effective Date:	September 1, 2008
Change and Review Contact:	<u>Brett Dahl</u>
Review:	Event Review: Any event affecting this procedure may initiate a review. Such events may include a change in statute, key staff changes or a request for review or change.
Scheduled Review Date:	Five years from Effective Date
Last Review/Revision:	August 22, 2008
Changes:	